

Frequently Asked Questions
New Mexico Environment Department
Proposed Greenhouse Gas Cap-and-Trade Rule
Updated July 16, 2010

1. Why reduce Greenhouse Gas emissions?

New Mexico is particularly vulnerable to climate change impacts, such as hotter temperatures, reduced snowpack, increased forest fires and more extreme weather events such as floods and long term droughts. The State has a responsibility to provide leadership, plan, and prepare for climate change.

2. Why reduce greenhouse gas emissions using a cap-and-trade program?

Cap-and-trade has been an effective means of reducing regional air pollution and is considered the most cost-efficient means of reducing greenhouse gas emissions. A cap-and-trade program reduces greenhouse gas emissions by setting a mandatory cap on greenhouse gas emissions and providing economic incentives for achieving emissions reductions. Under a cap-and-trade program, a regulatory authority distributes greenhouse gas emission allowances equal to the number of tons under the cap for each year.

Greenhouse gas emission allowances can be bought and sold on a transparent, open and regulated market. Cap-and-trade programs have a lower overall cost to the economy than traditional regulatory programs, because sources have flexibility in how to comply. A cap-and-trade program also creates incentives to develop New Mexico's green economy.

3. Will the New Mexico Environment Department propose implementing a New Mexico-only cap-and-trade program?

No. New Mexico will not implement a cap-and-trade program unless there are sufficient greenhouse gas emissions allowances within the Western Climate Initiative to make the program the trading program efficient and cost-effective. The Western Climate Initiative is a collaboration of Western states and Canadian provinces working together to identify, evaluate, and implement policies to tackle climate change at a regional level. Through a combination of a regional cap-and-trade program and complementary policies, the jurisdictions in the Western Climate Initiative have committed to reducing the pollution that causes global warming to 15 percent below 2005 levels by 2020. The Western Climate Initiative states include California, Washington, Oregon, Utah, Montana, Arizona and New Mexico. The Canadian provinces include British Columbia, Manitoba, Ontario and Quebec. The Environment Department proposes that the regional trading program must contain at least 100 million metric tons of greenhouse gases before the state will enter the program.

There will also be opportunities to link and trade with other programs. The Western Climate Initiative is one of several greenhouse gas initiatives in North America. Others include the Regional Greenhouse Gas Initiative in the Northeastern and Mid-Atlantic states and the Midwestern Greenhouse Gas Reduction Accord in the Mid-Western states.

4. How can New Mexico benefit from implementing a cap-and-trade program?

Establishing a price on greenhouse gas pollution through a cap-and-trade program can stimulate innovation and promote economic opportunities in clean energy technologies.

Expanding and strengthening existing state energy efficiency and renewable energy programs will support the transition to a clean energy economy and green jobs. In addition, New Mexico will benefit as the region looks to cleaner burning fuels such as New Mexico natural gas.

5. Who will be subject to the cap-and-trade program?

The cap-and-trade program applies only to sources that report emissions of 25,000 metric tons or more of carbon dioxide equivalent per year under the companion reporting rule 20.2.300 NMAC. Emissions that will and will not be counted towards the 25,000 metric ton threshold are listed in Table 1. The Environment Department anticipates that large facilities that generate electricity using coal or natural gas will be part of the program, as well as other large combustion sources at oil and gas facilities. Based upon greenhouse gas emissions inventory data, the Environment Department expects that approximately 63 sources will be under the cap (see Table 2).

6. How much will affected sources be required to reduce their greenhouse gas emissions?

The proposed cap-and-trade rule does not directly require facilities to reduce emissions. Instead, the number of allowances to emit greenhouse gases that are allocated to each facility will reduce by 2% per year. Facilities that do not reduce their emissions will need to purchase allowances in the cap-and-trade market. Additionally, over time the number of pollution allowances available on the market will diminish.

7. Does the cap limit a facility's production?

No. Production is not limited by the cap. Instead, there are provisions that encourage maintaining production in state as long as it is in compliance with the program's standards. In addition, the rule includes provisions to allocate free allowances for new production in the state.

8. How much will affected sources have to pay for greenhouse gas allowances?

New Mexico proposes to distribute allowances free of charge. A source that emits more tons of greenhouse gases than the number of allowances it owns will need to purchase additional allowances through the trading part of the program. A source that emits less greenhouse gas than the number of allowances it owns may be able to either bank or sell the excess allowances. New Mexico will not initiate cap-and-trade provisions unless the market is of sufficient size to be efficient and cost-effective.

9. Will affected sources be able to meet their emission reduction requirements through the use of offsets?

Offsets are emission reductions from sources outside the capped sectors, such as forestry and agriculture. Those who make reductions and obtain offset credits can sell them to cap facilities, which can use them to meet a portion of their compliance obligations. The Environment Department proposes to allow the use of offset credits to meet up to 4% of a facility's compliance obligations.

10. How does the Environment Department propose to distribute allowances?

The Environment Department proposes to issue greenhouse gas emission allowances to existing sources based on historical emissions, with adjustments for variations in production rates. The proposed regulation would allow allocations of allowances to new emission sources and new emissions at existing sources coming into the program after 2012. New emissions allocations will not expand the cap. A provision has been added to address indirect emissions resulting from increases in imported electricity.

11. What happens if the federal government passes a national cap-and-trade program?

The Environment Department supports a strong national greenhouse gas reduction program and intends to participate in a national program when it becomes effective. The proposed rule includes language that “sunsets” the state regulation if the federal government implements an equally effective national cap-and-trade program.

12. When will the proposed cap-and-trade program start?

Assuming sufficient market size as discussed in Question 8, the program is scheduled to start in 2012. Affected sources in New Mexico will not be required to surrender allowances until mid-2015, after the end of the first compliance period.

13. Will businesses leave the state to avoid the regulatory burden of this rule?

The Environment Department believes that the rules will encourage economic development rather than drive businesses from the state. The rules contain several provisions that address any regulatory burden. For example, the rules call for the free distribution of emission allocations, and postpone the compliance obligation until 2015, allowing sources several years to plan their emission reduction strategy. Lastly, the program is structured not to reward reduced production. Allowances are lost if the facility reduces production.

14. What are the economic impacts of a cap-and-trade program?

The Environment Department proposes to implement a cap-and-trade program because it is the least costly option for reducing greenhouse gas emissions. In addition, this cap-and-trade program design includes a number of cost containment features such as broad coverage, the banking of allowances, use of offsets, and free distribution of allowances. A regional economic analysis, including New Mexico, demonstrates that this program design will result in regional emission reductions with a net savings to the economy in 2020. Additionally, the Environment Department is conducting a state only economic analysis.

Ultimately, the goal of a cap-and-trade program is to avoid economic disruption resulting from the potential impacts of climate change, such as exacerbated droughts, increased temperatures, and more frequent extreme weather events. A recent study by the Climate Leadership Initiative showed that if greenhouse gases are not controlled, the cost of climate change to New Mexico citizens of higher temperatures, reduced snow pack, forest fires, droughts, energy costs and health care costs could reach \$3,430 annually per family by 2020 if greenhouse gases.

15. When will the Environmental Improvement Board hold a hearing to consider 20.2.350 NMAC – Greenhouse Gas Cap and Trade Provisions?

The New Mexico Environmental Improvement Board will hold a public hearing to consider this rule, beginning on September 20, 2010, at the Senator Fabian Chavez Room, PERA Building, 33 Plaza La Prensa, Santa Fe, New Mexico.

16. Is it too late to comment on the proposed regulation?

No, it is not too late to submit comments on the proposed regulation. The Environment Department will take comments on the proposed regulation at any time. Additionally, any person may present comments in writing or at the hearing itself.

17. Where can I find more information?

The proposed regulation and supporting documents, such as the Department's written testimony and exhibits for the hearing, may be found at

<http://www.nmenv.state.nm.us/cc/CapandTradeRegulation.htm>.

Table 1: Emissions That Do And Do Not Count Towards Cap-and-Trade Applicability

<p>Emissions That will be Considered in Determining whether a Facility meets the emissions threshold for the cap-and-trade rule:</p> <ul style="list-style-type: none">• General Stationary Fuel Combustion• Combustion From Electricity Generation• Process (Non-Combustion) Emissions From Sources In The Following Source Categories:<ul style="list-style-type: none">○ Cement Production○ Hydrogen Production○ Lead Production○ Lime Manufacturing○ Nitric Acid Production○ Petrochemical Production○ Petroleum Refineries (Except For Certain Emissions Streams)○ Zinc Production	<p>Emissions That will not be Considered in Determining whether a Facility meets the emissions threshold for the cap-and-trade rule include (but are not limited to) emissions from:</p> <ul style="list-style-type: none">• Motor Vehicles• Mobile Equipment (Graders, Forklifts, Etc.)• Livestock And Manure Management• Emergency Generators• Irrigation Pumps At Agricultural Operations• Bench-Scale Research And Development Activities• Fugitive Methane Emissions From Landfills.
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Table 2. Year 2008 carbon dioxide emissions reported to the New Mexico Air Quality Bureau as required by regulations 20.2.73 NMAC and 20.2.87 NMAC. This table includes only sources that reported emissions of 25,000 metric tons or more. Smaller sources that are not included here accounted for less than 4% of reported emissions. The 63 reporting facilities emitted a total of 23.4 million metric tons (MMT CO_2). Of these facilities, the 25 largest emitters accounted for approximately 90 percent of the reported emissions.

We believe there are also a small number of additional sources that are not currently subject to NMED greenhouse gas reporting, but that may emit 25,000 metric tons or more and would be included in the cap.

**FACILITIES REPORTING 2008 CO_2 EMISSIONS
EXCEEDING 25,000 METRIC TONS PER YEAR**

Facility Owner/Operator	MTCO₂ Emissions	Percent of Total
<i>Electricity Generation</i>		
Public Service Co of New Mexico San Juan Generating Station Luna Energy Facility Afton Generating Station Lordsburg Generating Station	10,797.5 905.8 329.2 29.9	51.53%
Tri -State Generating Prewitt Escalante Generating Station	1,755.1	7.50%
Xcel Energy Cunningham Station Maddox Station	881.4 310.0	5.09%
El Paso Electric Rio Grande Generating Station	461.7	1.97%
City of Farmington Bluffview Power Plant Animas Plant	135.7 63.1	0.85%
<i>Oil and Gas</i>		
Williams Four Corners Milagro Cogeneration and Gas Plant Kutz Gas Plant	1,500.5 141.2	9.20%

Facility Owner/Operator	MTCO ₂ Emissions	Percent of Total
El Cedro Gas Plant	100.5	
La Jara Compressor Station	82.2	
Lybrook Gas Plant	58.6	
Dogie Canyon Compressor Station	42.5	
32-8 No2 CDP Compressor Station	40.9	
32-7 CDP Compressor Station	40.3	
Trunk L Compressor Station	37.2	
Laguna Seca Compressor Station	29.8	
Chaco Compressor Station	26.3	
Cedar Hill Compressor Station	25.7	
Middle Mesa CDP Compressor Station	27.8	
TEPPCO NGL Pipeline		6.23%
Val Verde Treater	1,340.2	
Pump Canyon Compressor Station	41.7	
Frances Mesa Compressor Station	30.5	
Gobernador/Manzanares Compressor Station	44.9	
Enterprise Field Services		3.16%
Chaco Gas Plant	395.3	
Blanco Compressor C and D Station	263.5	
Rattlesnake Canyon Compressor Station	47.0	
South Carlsbad Compressor Station	32.9	
Navajo Refining		3.07%
Artesia Refinery	624.2	
Lovington Refinery	93.8	
Versado Gas Processors		1.68%
Eunice Gas Plant	187.8	
Monument Gas Plant	96.4	
Saunders Gas Plant	67.0	
North Eunice Compressor Station	42.5	
DCP Midstream		1.61%
Artesia Gas Plant	66.1	
Eunice Gas Plant	146.1	
Linam Ranch Gas Plant	164.2	
Western Refining		1.57%
Ciniza Refinery	264.5	
Bloomfield Refinery	103.5	
Conoco Phillips		1.48%
San Juan Gas Plant	244.1	
East Vacuum Liquid Recovery	65.4	

Facility Owner/Operator	MTCO₂ Emissions	Percent of Total
Wingate Fractionation Plant	36.8	
El Paso Natural Gas Lordsburg Compressor Station Florida Compressor Station Eunice A Compressor Station Monument Compressor Station Afton Compressor Station Pecos River Compressor Station	61.3 45.8 41.5 38.6 35.0 81.1	1.30%
Southern Union Gas Jal No. 3 Gas Plant	226.8	0.97%
OXY USA WTP Indian Basin Gas Plant	111.3	0.48%
Intrepid Potash New Mexico East KCl Compaction	106.6	0.46%
Freeport-McMoRan - Chino Mines Chino Mine - Hurley Facility	87.8	0.38%
Davis Gas Processing Denton Gas Plant	64.3	0.27%
Western Gas Resources San Juan River Gas Plant	62.1	0.27%
Mosaic Potash Carlsbad Plant	43.6	0.19%
Frontier Field Services Empire Abo Gas Plant	40.6	0.17%
Other		
DairiConcepts Portales	50.7	0.22%
American Gypsum Bernalillo Plant	32.1	0.14%
U.S. Department of Energy Los Alamos National Laboratory	31.2	0.13%

Facility Owner/Operator	MTCO₂ Emissions	Percent of Total
State of New Mexico New Mexico State University	26.8	0.11%
<i>Total from sources ≥ 25K metric tons</i>	23,408.9	100.00%

*Methane emissions were not required to be reported for the 2008 emissions year. Vented CO₂ emissions from some gas treatment and processing plants may be underestimated. The above list may not be inclusive of all sources potentially subject to the cap. It's also possible that reporting or data transfer errors may result in a source listed above not being included in the cap.